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SIPDIS

FOR THE SECRETARY FROM AMBASSADOR ORDWAY

E.O. 12958: DECL: 10/05/2015

TAGS: [KZ](#) [PGOV](#) [PREL](#) [POLITICAL](#)

SUBJECT: SCENESETTER FOR THE SECRETARY'S VISIT TO KAZAKHSTAN

Classified By: Ambassador John Ordway, reasons 1.4 (B) and (D).

1. (C) Summary/overview: Your visit provides an extremely valuable and timely chance to consult with President Nazarbayev as the presidential election campaign officially begins. Nazarbayev will undoubtedly share with you his vision of Kazakhstan's development in the wake of independence. He saw the nation's first task as the establishment, for the first time in the history of the Kazakh people, of a secure and sovereign nation state. That accomplished, the second was to create the fundamentals of a market economy. Only with that accomplished would it be possible to move forward to serious democratic reform -- a moment that Nazarbayev says has now arrived. His major policy addresses in February and September outlined a good approach toward political reform, albeit at a rather unambitious pace. There is considerable justified skepticism, however, about Nazarbayev's willingness and ability to take the tough actions needed to realize the reform plan. President Nazarbayev is clearly concerned about his legacy and wants to be judged favorably by history as the man who brought Kazakhstan to true independence. He recognizes that to ensure future stability he needs to create a stable, sustainable democratic political system. Nazarbayev, however, either does not realize the destructive potential, or cannot overcome the corrupt interests of his own family and his inner political circle. He is therefore torn between the need for reform, and the desire to avoid the short-term pain and sacrifice this would require from him, his family, and a large network of political and personal cronies. End summary/overview.

The Political Context

2. (C) With presidential elections scheduled for December 4, Nazarbayev is eager for as many high-level international contacts as possible in order to buttress his domestic image as the only leader capable of protecting Kazakhstan's interests on the world stage. He will therefore be very eager to meet with you and to highlight that meeting publicly. At the same time, in the wake of the "color revolutions," Nazarbayev has residual concerns about U.S. intentions. He will be on alert for any hint that the U.S. believes that it is time for him to move on. While A/S Fried's September 30 meeting with Nazarbayev helped assuage these concerns, Nazarbayev will welcome your acknowledgment of his historical achievements and the strong partnership that we have created over the past 14 years of independence -- and your assurances that the U.S. is interested only in a fair and open election process that will strengthen the international and domestic authority of the winner.

3. (C) As the incumbent in a country experiencing 9% growth over the past several years and benefiting from high oil prices, Nazarbayev is justifiably confident that he will win in December. These will be the first truly contested presidential elections in Kazakhstan's history. The two opposition candidates, Zharmakhan Tuyakbay ("For a Just Kazakhstan") and Alikhan Baimenov ("Ak Zhol"), are relatively weak, however. Both western polls and the GOK's own private polling data give Nazarbayev a wide lead -- perhaps as much as 70%.

4. (C) Our message to Nazarbayev and his inner political circle has been that he will have far greater legitimacy if he wins a fair election with 65-70% of the vote than if he receives 90% and opens the door to charges of falsification. We have also underscored the importance to Kazakhstan's development and future stability of giving the opposition room to develop. Nazarbayev has said all the right things about holding free and transparent elections; in a September 9 decree he ordered ministries and the Central Election Commission (CEC) to ensure the accuracy of voter lists, equal access to the media for all candidates, and the accreditation of foreign election observers and media. The CEC has already invited the OSCE to observe the elections. The question is whether the political will exists to break old habits and insure that administrative resources are not misused and the vote count is not falsified. Even if Nazarbayev is genuinely committed to the goal, the political structure of the country -- with regional leaders appointed by and loyal to the

president -- will make it very difficult to achieve truly clean elections.

15. (C) There is a wide range of worldviews and opinions in

Nazarbayev's inner circle of advisors. Several, including Presidential Administration head Dzhaksybekov and PA officials Mukhamedzhanov and Yertysbayev, perceive the West and western NGOs as threats and advise Nazarbayev to maintain strict control of the political environment. There are others, however, such as presidential advisors Karim Masimov and Marat Tazhin, and FM Tokayev, who favor political reform and increased openness. FM Tokayev told Ambassador Ordway in June that in Kazakhstan the pendulum swings back and forth between authoritarian and democratic tendencies. In the months following the "color revolutions," those who advocate an authoritarian approach have had Nazarbayev's ear. Tokayev was optimistic that the pendulum will soon swing back the other way. Our sense is that the pendulum has probably swung as far as it is going to go, and there may be some small movement in the other direction. However, continuous high-level USG engagement with Nazarbayev personally is important because it strengthens the hand of those in his inner circle who understand and agree with our message.

The Economic Environment

16. (C) The Kazakhstani economy is of course dominated by the energy sector, which provides approximately 22% of government revenue. Oil exports account for approximately 20% of GDP. The country produces 1.25 million barrels of oil per day. The GOK realizes the risks associated with an energy-dependent economy and has taken several wise moves to manage the situation, including the creation of an offshore National Fund to sterilize oil revenue and minimize budgetary fluctuations. The energy sector is growing rapidly. Kazakhstan will enter the oil-producing top ten in the next decade, with production expected to reach 150 million tons annually (3 million b/pd) by 2015.

17. (C) Conditions for foreign investors in the energy sector have changed for the worse since 2002. Early contracts were exceptionally generous, recognizing the very high risk associated with investing in a newly independent country. The GOK is now taking aggressive steps to increase revenue and claw back equity through excessive tightening of its fiscal regime. Changes to the tax code have reduced internal rate of return (IRR) from a peak of 16-23% to 11-12%. While foreign oil majors say they are looking for at least 15% IRR before signing any large new deals, majors such as Shell and ConocoPhillips are aggressively pursuing new blocks based on present terms. The GOK is also seeking a larger ownership share of new projects, claiming the right to take up to 50%; it is doubtful, however, that the government can sustain the required investments during the development stages. Cash calls resulting from the acquisition of a share in AGIP-KCO (Kashagan) will constrain the GOK's ability to maintain ownership in other fields. Nonetheless, there is strong competition for the majors. The Chinese have demonstrated their willingness to overpay for assets with their proposed purchase of Canadian-owned PetroKazakhstan; Russian, Indian and other mid-tier oil companies are also eager to increase their presence here.

18. (C) The GOK also emphasizes the need for economic diversification to ensure long-term economic stability. Although diversification features prominently in GOK rhetoric, there have been few concrete results to date. Efforts to develop non-energy related industries are hampered by widespread corruption at all levels of society and government. The GOK has taken some steps to address the problem, but has not attacked it at the root or created the truly independent judiciary needed. Nevertheless, the solid macroeconomic policies of the past decade have created many of the prerequisites for a more diverse economy, such as moderate inflation rates, an excellent banking and banking regulatory system, investment-grade ratings of sovereign debt by all agencies, and the early pay-off of all IMF debt. We are close to agreement with the Kazakhstani government on co-funding of USAID economic development programs. The GOK is also taking the necessary steps to integrate itself into the regional and global economy, most notably through membership in USTR's TIFA (Trade and Investment Framework Agreement) and application for WTO membership.

The Security Relationship

19. (S) Kazakhstan has been a loyal partner in the war on

terror. The GOK has permitted almost 3,800 no-cost overflights and numerous emergency diverts in support of OEF operations in Afghanistan. For the past two years, it has

also deployed a 27-member military engineer team (KazBat) to Iraq, which has disposed of over 3.5 million pieces of ordnance. Given its size and resources, Kazakhstan could do more in the international arena. The GOK declined our 2004 request to provide a battalion for UN security operations in Iraq. U/S Joseph will pitch President Nazarbayev on expanded PSI cooperation (i.e. interdiction of flights) when they meet on October 8 in Ust-Kamenogorsk. Closer to home, cooperation between intelligence agencies on domestic and regional terrorist threats has grown dramatically. We are extraordinarily pleased with the exceptionally close and productive operational cooperation that we now have with Kazakhstan.

10 (S) [Deleted garbled text]
DOE helped to decommission the Soviet-era BN-350 reactor, and is now addressing the issue of spent fuel disposition. It has also helped Kazakhstan increase materials protection, accounting, and controls at a number of nuclear facilities and is working to convert the Alatau reactor from HEU to LEU use.

11. (C) The signature of the Proliferation Prevention Initiative agreement in August has created new opportunities for cooperation on Caspian security. Although Kazakhstan has fallen behind Azerbaijan, they now appear eager to move forward. President Nazarbayev raised this cooperation with A/S Fried in their September 30 meeting.

Your Visit

12. (C) I look forward to welcoming you to the rapidly developing capital city of Astana next Wednesday and introducing the staff of Embassy Almaty, the Embassy Branch Office in Astana, and the OBO construction team to you. You can expect to find President Nazarbayev in a relaxed and confident mood, ready for wide-ranging and forward-looking discussions of the entire bilateral relationship. With President Berlusconi coming to see him the following day, Nazarbayev is undoubtedly pleased that Kazakhstan is receiving the international attention he so eagerly seeks.
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